

**BEAR
STEARNS**

Victor B. Miller, IV
212 272-4233
vmiller@bear.com

Christopher H. Ensley
212 272-3171
censley@bear.com

Tracy B. Young
212 272-0178
tyoung@bear.com

ORIGINAL

EX PARTE OR LATE FILED

Equity Research
Broadcasting/Radio & TV / Rated: Market Overweight
May 28, 2003

RECEIVED

**More Duopoly Relief Needed in Small to Mid-Sized TV
Markets**

MAY 28 2003

Permitted Ex Parte Presentation

MB Docket No. 02-277; MM Docket Nos. 01-235, 01-317, 00-244

Key Points

- *** **FCC Explores Duopoly Rules in TV.** In the expected June 2, 2003 rulemaking on media ownership, we believe the Federal Communications Commission will loosen duopoly rules and may even consider triopolies in some markets.
- *** **Duopoly - Keeping Certain Aspect, Ditching Others.** We believe that the FCC is planning to retain the restriction that prevents any of the top four rated TV stations in a market from combining while ditching the "8-voice test", which requires that there be eight different owners of TV stations (commercial and non-commercial) in a market after a proposed duopoly is completed.
- *** **Little Relief for Mid-to-Small Market TV Players.** Duopoly is most badly needed in mid-to-small TV markets where economics are poorer. Under current FCC plans, there would be no duopoly relief in 44 of the TV markets ranked 51-150. In 34 markets, only one duopoly option would be available. This stance also ignores local cable systems' increased competitiveness for TV ad dollars.
- *** **Solutions Offered.** Yesterday, the NAB adopted a proposal permitting a) a broadcaster to own 2 of the top 4 rated stations and b) own up to 3 stations in a market as long as c) cumulative audience share does not exceed 30% (owners of cable networks would have to include cable viewing shares as well). At a minimum, we believe the FCC should reduce the 4-station prohibition to a 3-station prohibition.
- *** **Need Some Balance.** Allowing more relaxation of duopoly rules in mid-to-small markets will permit local TV operators to react to the prospects of the a) combination of a cable system and a local TV station, b) the combination of a newspaper and a local TV station and c) the further relaxation of the ownership cap, which could increase the power of the networks relative to their affiliates.

****PLEASE REFER TO THE LAST PAGE OF THIS REPORT FOR IMPORTANT DISCLOSURE INFORMATION**

Please read the important disclosure information on the last page of this report.

The FCC Revisits the Duopoly Rules. On June 2, 2003, we expect the FCC will issue its much-anticipated rulemaking on media ownership. One important aspect of these rule changes will address duopoly, which permits a television broadcaster to own two television stations in the same market.

Duopoly - Keeping Certain Aspects, Ditching Others. Currently, the duopoly rule allows a TV broadcaster to own a second TV station in a given designated marketing area (DMA) as long as the broadcaster does not own two of the four highest rated TV stations in a given market and as long as eight "voices" exist in the market after the duopoly is completed. Both commercial and non-commercial stations count in this voice test.

We think that the FCC is prepared to make a change to this rule while retaining its core. We believe that the Federal Communications Commission currently is expected to retain the prohibition of the combination of any of the top four rated television stations in a given TV market.

No. of Copies rec'd 012
Lia. ANONE

However, we do believe that the Commission will “ditch” the “8-voice-test”. This de-facto means that there can be some duopoly activity in any TV market with at least 5 commercial stations.

We believe that the current contemplated rule, which would prohibit the combination of two of the top four TV stations in a market, may be too restrictive. Here’s why we take this position.

Little Relief for Mid to Small Market TV Players. While the FCC contemplates a significant relaxation of newspaper-broadcast cross-ownership rules, loosening the national TV station ownership reach, not challenging the right of cable systems to buy local TV stations and allowing triopolies in larger TV markets, the current FCC stance on TV duopoly will leave small to mid-market operators without the regulatory flexibility needed to respond to the regulatory options provided to other medias/companies under the expected June 2, 2003 rulemaking.

If the FCC maintains its “top four TV station combination” restriction, mid to small market TV operators may record the biggest disappointment from the expected June 2, 2003 rulemaking.

To provide a sense of the regulatory relief (or lack thereof), we looked at the TV stations in markets 51-150 (simulating the market for mid-to small market TV) and then tried to assess how many duopolies could be done under the FCC’s current “no mergers of top four stations, do away with the 8-voice test proposal”. In our assessment of TV stations, we considered all full power ABC, CBS, NBC, Fox, UPN, WB, Univision, Telemundo, Telefutura and independents (with some viewing share).

Here’s what our data suggested:

- In 44 markets, representing 44% of markets 51-150, there would be no duopoly relief at all.
- In 34 markets, representing 34% of markets 51-150, there would be only 1 duopoly permitted.
- In 20 markets, representing 20% of markets 51-150, there would be 2 duopoly opportunities available.
- In 2 markets, representing 2% of markets 51-150, there would be 3 duopoly opportunities.

As Exhibit One illustrates, a retention of the “top four station combination” will not allow much latitude for the local TV stations in the mid to small TV markets.

Duopoly Relief Under Current FCC Proposal - Maintain "Top-Four Merger Ban" and Eliminate 8-Voice Test - See Note

Markets With No Projected Duopoly Relief Market Name	Markets With No Projected Duopoly Relief Market Rank	Markets With One Projected Duopoly Opportunity Market Name	Markets With One Projected Duopoly Opportunity Market Rank	Markets With Two Projected Duopoly Opportunities Market Name	Markets With Two Projected Duopoly Opportunities Market Rank	Markets With Two or More Projected Duopoly Opportunities Market Name	Markets With Two or More Projected Duopoly Opportunities Market Rank
Little Rock-Pine Bluff	56	Jacksonville	51	Las Vegas	52	Fresno, CA	57
Flint, MI	64	Dayton, OH	58	Wilkes-Barre, PA	53	Springfield, MO	73
Omaha, NE	78	Richmond, VA	59	Austin, TX	54		
South Bend, IN	87	Mobile, FL	62	Albany, NY	55		
Jackson, MS	89	Lexington, KY	65	Tulsa, OK	60		
Tri-Cities, VA	90	Toledo, OH	68	Charleston, WV	61		
Burlington, NY	91	Honolulu, HI	71	Knoxville, TN	63		
Davenport, IA	92	Paducah	75	Wichita, KS	66		
Waco, TX	93	Portland, ME	76	Roanoke, VA	67		
Colorado Springs, CO	94	Rochester, NY	77	Green Bay, WI	69		
Baton Rouge, LA	95	Spokane, WA	79	Ft. Meyers, FL	70		
Johnstown, PA	96	Champaign, IL	82	Des Moines, IA	72		
Youngstown, OH	100	Huntsville, AL	83	Tucson, AZ	74		
Lincoln, NE	102	Columbia, SC	84	Syracuse, NY	80		
Ft. Wayne, IN	104	Chattanooga, TN	85	Shreveport, LA	81		
Springfield, MA	106	Madison, WI	86	Cedar Rapids, IA	88		
Tallahassee, GA	107	Savannah, GA	98	Harlingen, TX	97		
Ft. Smith,	108	Evansville, IN	99	Reno, NV	114		
Florence, SC	110	El Paso	101	Montgomery, AL	116		
Traverse City, MI	113	Greenville, NC	103	Santa Barbara, CA	119		
Fargo-Valley City, ND	118	Charleston, SC	105				
Monterey, CA	120	Tyler, TX	109				
La Crosse, WI	123	Lansing, MI	111				
Yakima, WA	127	Sioux Falls, SD	112				
Corpus Christi, TX	128	Augusta, GA	115				
Bakersfield, CA	130	Peoria, IL	117				
Columbus, MS	131	Eugene, OR	121				
Chico, CA	132	Macon, GA	122				
Monroe, AR	133	Boise, ID	124				
Rockford, IL	135	Lafayette, IN	125				
Duluth, WI	136	Columbus, GA	126				
Beaumont, TX	137	Amarillo, TX	129				
Topeka, KS	138	Wasau, WI	134				
Columbia, MO	139	Lubbock, TX	147				
Sioux City, IA	140						
Medford, OR	141						
Wichita Falls, OK	142						
Erie, PA	143						
Wilmington, NC	144						
Joplin, MO	145						
Terre Haute, IN	146						
Albany, GA	148						
Bluefield, WV	149						
Wheeling, WV	150						
Totals	44	34		20		2	
Percent of Markets	44.0%	34.0%		20.0%		2.0%	

Source: BIA - Investing in Television; Bear, Stearns & Co., Inc.

Note: We considered full-power ABC, CBS, NBC, Fox, WB, UPN, Univision, Telemundo, Telefutera and Independents (with 1% Share)

Why Loosen Duopoly Rules? Part One: Small to Mid-Market TV Economics are Dwarfed by Large Market TV Economics. One reason that we believe the FCC should revisit its ban on the combination of the top four TV stations in a given market is simply because the economics of large market TV dwarf those of small market TV.

To prove our point, we looked at data provided by the National Association of Broadcasters (NAB) and Broadcast Cable Financial Management (BCFM) in their 2001 Edition of the Television Financial Report. In this edition, NAB and BCFM

reviewed financial reporting from stations in markets 1 through 176+ and summarized all of the data in a concise report for the calendar year ending 2000.

[As an aside, in general, the local TV business suffered revenue declines of 15% relative to 2000 and saw cash flow decline at an average of 25% to 35%, so the revenue, cash flow and pre-tax income figures cited in this Exhibit overstate the current financial health of the business. 2002's 8% to 10% recovery in industry revenues did not make up for 2001's 15% average decline.]

As Exhibit One suggests, the economics of mid and small market local TV stations are dwarfed by those large market television.

Profitability of Large, Mid and Small Market ABC, CBS and NBC Affiliates - 2000

	Large Market 1-10	Mid Market 61-70	Small Market 121-130	Revenue Top 10 Versus 61-70	Revenue Top 10 Versus 121-130
Net Revenue	\$114.0	\$13.9	\$7.6	8.2	15.0
<u>Expenses</u>					
Engineering	(\$4.1)	(\$0.8)	(\$0.5)	5.4	8.9
Programming/Production	(\$15.2)	(\$1.7)	(\$1.0)	8.8	14.8
News	(\$13.4)	(\$2.2)	(\$1.3)	6.2	10.6
Sales	(\$5.2)	(\$1.3)	(\$0.9)	3.9	5.7
Advertising/Promotion	(\$2.3)	(\$0.3)	(\$0.1)	6.8	15.7
General & Administrative	<u>(\$6.9)</u>	<u>(\$1.9)</u>	<u>(\$1.4)</u>	<u>3.7</u>	<u>5.1</u>
Total Expenses	(\$47.1)	(\$8.2)	(\$5.2)	5.7	9.1
Cash Flow	\$66.8	\$5.6	\$2.4	11.8	27.9
Margin	58.6%	40.7%	31.6%	18%	27%
<u>Percent of Net Revenues</u>					
Engineering	3.6%	5.5%	6.1%	-2%	-2%
Programming/Production	13.4%	12.6%	13.6%	1%	0%
News	11.7%	15.6%	16.7%	-4%	-5%
Sales	4.5%	9.6%	12.1%	-5%	-8%
Advertising/Promotion	2.0%	2.4%	1.9%	0%	0%
General & Administrative	<u>6.1%</u>	<u>13.6%</u>	<u>18.0%</u>	<u>-8%</u>	<u>-12%</u>
Total Expenses	41.4%	59.3%	68.4%	-18%	-27%
Full-time employees	206	88	73	2.3	2.8
Revenue per FT Employee	\$0.553	\$0.157	\$0.104	3.5	5.3
Expenses per FT Employee	(\$0.229)	(\$0.093)	(\$0.071)	2.5	3.2
<u>Capital Expenditures</u>					
CAPEX	\$3.19	\$0.74	\$1.38	4.3	2.3
CAPEX/CF	4.8%	13.1%	57.6%	-8%	-53%

Source: National Association of Broadcasters, Broadcast Cable Financial Management Association, Bear, Stearns & Co., Inc.

Here are some summary points from the NAB/BCFM data comparing the economics of large (top 10 TV markets) versus mid-market (61-70) "big three" affiliate (ABC, CBS and NBC) TV stations for 2000:

- In 2000, large market “big three” affiliates take an average of 8.2x more revenue than do their mid-market counterparts. In dollars, this translates to an average of \$114.0 million for each “big three” affiliate in large markets versus \$13.9 million in mid-market “big three” affiliates.
- In 2000, large market “big three” affiliates’ expenses are 5.7x those of their mid-market counterparts. This suggests that it does not cost proportionately less to program a “big three” affiliate in mid-markets relative to large markets (8.2x more revenue but only 5.7x more expenses).
- Given the disproportionate ratio of revenues (8.2x) relative to expenses (5.7x), we believe that large market “big three” affiliates capture 11.8x more cash flow per station in large markets than they do in mid-sized. In dollars, this translates to an average of \$66.8 million for each “big three” affiliate in large markets versus \$5.6 million in mid-market “big three” affiliates. It’s the same business, operating an ABC, CBS and NBC affiliate, but with 8.5% of the economics.
- Large market “big three” affiliates’ margins, at 58.6%, are 18% better than those of mid-market TV stations (40.7%).
- In mid-market TV, engineering (represents 2% more of net revenue than in large markets), news (4% more), sales (5% more) and general and administrative (8% more) are all proportionately more costly compared to big markets.
- Large market “big three” affiliates have 2.3x more employees but capture 3.5x more revenue per employee, leading to significantly higher margins for large market TV. This also suggests that a certain number of people are needed to run a full-scale, news-oriented TV station, no matter what the size of the market.
- CAPEX as a percentage of cash flow is much higher in mid-sized markets (13% of cash flow) relative to large-sized markets (4.8%). This really highlights the disproportionate burden of rolling out digital TV in mid-sized markets relative to large markets.

While the mid-market story is certainly dramatic in its own right, the story is even more pronounced in smaller markets:

- In 2000, large market “big three” affiliates take an average of 15.0x more revenue than do their small-market counterparts. In dollars, this translates to an average of \$114.0 million for each “big three” affiliate in large markets versus \$7.6 million in mid-market “big three” affiliates.
- In 2000, large market “big three” affiliates’ expenses are 9.1x those of their mid-market counterparts. This suggests that it does not cost proportionately less to program a “big three” affiliate in small-markets relative to large markets (15.0x more revenue but only 9.1x more expenses).
- Given the disproportionate ratio of revenues (15.0x) relative to expenses (9.1x), we believe that large market “big three” affiliates capture nearly 28.0x more cash flow per station in large markets than they do in small markets. In dollars, this translates to an average of \$66.8 million for each “big three” affiliate in large markets versus \$2.4 million in small-market “big three” affiliates. Again, it’s the same business, operating an ABC, CBS and NBC affiliate, but with 3.5% of the economics.
- We believe large market “big three” affiliates’ margins, at 58.6%, are 27% better than those of small-market TV stations (31.6%).
- In small-market TV, engineering (represents 2% more of net revenue than in large markets), news (5% more), sales (8% more) and general and administrative (12% more) are all proportionately more costly compared to big markets.
- Large market “big three” affiliates have 2.8x more employees but capture 5.3x more revenue per employee, leading to significantly higher margins for large market TV. This also suggests that a certain number of people are needed to run a full-scale, news-oriented TV station, no matter what the size of the market.

- CAPEX as a percentage of cash flow is much higher in small-sized markets (53% of cash flow) relative to large-sized markets (4.8%). This really highlights the disproportionate burden of rolling out digital TV in small-sized markets relative to large markets.

On November 26, 2001, Bear Stearns hosted a Television Industry Summit in Washington D.C. that included seven panels with 25 panelists. The panels discussed various TV industry issues and included 25 panelists. One panel was entitled "Small-Market TV Economics".

One panelist, Jim Keelor, the President and Chief Operating Officer of Liberty Corp. (Television) suggested: "And the duopoly model is exactly upside down. The big markets don't need the help. The small markets do."

The NAB/BCFM data suggests that Mr. Keelor is right. Loosening the duopoly rules in mid to small markets is essential.

Why Loosen Duopoly Rules? Part Two: Economics Within Small to Mid-Market TV Vary Significantly – Many Stations are Not Very Profitable. Another reason to consider loosening the TV duopoly rules from the current plan to reaffirm the ban on the top four TV stations in a market combining is the reality that the economics of stations within the same markets can vary significantly.

In fact, in some TV markets, we believe that some stations are currently showing pre-tax (cash flow less depreciation and amortization less interest) losses.

And again, this data, which was drawn from the 2001 Edition of the Television Financial Report, relied on 2000 station data. 2000 was a record year for the local TV business. So it is likely that these revenue, cash flow and pre-tax income numbers are overstated.

Again, using NAB/BCFM data, we compared the net revenue, cash flow and pre-tax profits of the best performing TV stations (75% percentile) with those that did not perform as well (25% percentile).

Relative Profitability of "Big Three" Affiliated TV Stations - 75% Percentile Versus 25% Percentile - By Market Size- 2000

	Markets 51-60	Markets 61-70	Markets 71-80	Markets 81-90	Markets 91-100	Markets 101-110	Markets 111-120	Markets 121-130	Markets 131-150	Markets 151-175
<u>Net Revenue</u>										
75% Percentile Revenue	\$25.2	\$18.3	\$16.1	\$14.3	\$12.2	\$13.8	\$9.9	\$9.2	\$7.7	\$8.5
25% Percentile Revenue	\$15.1	\$9.8	\$11.2	\$10.2	\$8.7	\$6.5	\$6.1	\$5.7	\$5.2	\$3.7
Difference - Dollars	\$10.1	\$8.5	\$4.9	\$4.1	\$3.4	\$7.2	\$3.8	\$3.5	\$2.6	\$4.8
Difference - Percentage	67%	87%	43%	41%	39%	111%	63%	61%	49%	129%
<u>Cash Flow</u>										
75% Percentile Cash Flow	\$11.4	\$7.3	\$7.0	\$6.1	\$4.4	\$5.3	\$3.8	\$3.1	\$3.0	\$3.5
25% Percentile Cash Flow	\$5.2	\$3.1	\$3.1	\$3.1	\$1.7	\$1.6	\$1.2	\$1.3	\$1.4	\$0.8
Difference - Dollars	\$6.2	\$4.2	\$3.9	\$3.0	\$2.7	\$3.7	\$2.6	\$1.8	\$1.7	\$2.7
Difference - Percentage	118%	137%	123%	99%	162%	229%	227%	142%	120%	341%
<u>Pre-Tax Profits - Note 1</u>										
75% Percentile Pre-Tax Profit	\$10.6	\$4.6	\$3.6	\$3.6	\$2.8	\$2.9	\$2.4	\$1.1	\$1.7	\$1.7
25% Percentile Pre-Tax Profit	\$2.6	\$0.7	(\$1.6)	\$1.0	(\$0.3)	(\$0.2)	(\$0.7)	\$0.1	\$0.1	(\$0.2)
Difference - Dollars	\$8.0	\$3.9	\$5.3	\$2.5	\$3.0	\$3.0	\$3.1	\$1.1	\$1.6	\$1.9
Difference - Percentage	311%	547%	-322%	243%	-1056%	-1751%	-443%	1731%	1262%	-951%

Source: National Association of Broadcasters; Broadcast Cable Financial Management Association; Bear, Stearns & Co., Inc.

Note 1: Pre-tax profits equals cash flow less depreciation and amortization and interest expense

As Exhibit Three suggests, economics between the best and worst stations in the same markets can be significant:

- In markets 51-60, the top TV stations (75% percentile) had 67% more net revenue, 118% more cash flow and 311% more pre-tax profit than did the worst performing stations.
- In markets 61-70, the top TV stations (75% percentile) had 87% more net revenue, 137% more cash flow and 547% more pre-tax profit than did the worst performing stations.

- In markets 71-80, the top TV stations (75% percentile) had 43% more net revenue and 123% more cash flow than did the worst performing stations. The worst performing stations averaged a *pre-tax operating loss* of \$1.6 million while the best averaged a \$3.6 million profit.
- In markets 81-90, the top TV stations (75% percentile) had 41% more net revenue, 99% more cash flow and 243% more pre-tax profit than did the worst performing stations.
- In markets 91-100, the top TV stations (75% percentile) had 39% more net revenue and 162% more cash flow than did the worst performing stations. The worst performing stations averaged a *pre-tax operating loss* of \$0.3 million while the best averaged a \$2.8 million profit.
- In markets 101-110, the top TV stations (75% percentile) had 111% more net revenue and 229% more cash flow than did the worst performing stations. The worst performing stations averaged a *pre-tax operating loss* of \$0.2 million while the best averaged a \$2.9 million profit.
- In markets 111-120, the top TV stations (75% percentile) had 63% more net revenue and 227% more cash flow than did the worst performing stations. The worst performing stations averaged a *pre-tax operating loss* of \$0.7 million while the best averaged a \$2.4 million profit.
- In markets 121-130, the top TV stations (75% percentile) had 61% more net revenue, 142% more cash flow and 1,731% more pre-tax profit than did the worst performing stations. The worst performing stations only recorded pre-tax profits of \$62,000.
- In markets 131-150, the top TV stations (75% percentile) had 49% more net revenue, 120% more cash flow and 1,262% more pre-tax profit than did the worst performing stations. The worst performing stations only recorded pre-tax profits of \$123,000.
- In markets 151-175, the top TV stations (75% percentile) had 129% more net revenue and 341% more cash flow than did the worst performing stations. The worst performing stations averaged a *pre-tax operating loss* of \$0.2 million while the best averaged a \$1.7 million profit.

The vast disparity of performance within a given market between “big three” affiliates in mid and small markets and the reality that the worst performing stations are actually losing money suggests that some relief is necessary to preserve voices in these markets.

It would seem very unlikely that a newspaper would choose a money losing station as its first choice as an operating partner in a given local market.

It is also unlikely that a local cable multiple system operator would choose a money losing station to help it sell its local cable inventory or provide the system with news programming.

What will protect the struggling voice in a local TV market? The ability to combine with another TV voice in the marketplace, we would suggest. We could make the argument that in these cases, fewer owners may lead to more voices.

Why Loosen Duopoly Rules? Part Three: Duopolies Have Traditionally Supported Weaker Properties and Preserved Local Voices. As we have written about repeatedly in the past, we believe that duopoly policy, which was adopted as a part of the FCC’s August 5, 1999 rulemaking addressing TV ownership has been a success.

Exhibit Four summarizes the duopolies and local marketing agreements in the top 100 TV markets.

Here’s some summary statistics that suggest that duopolies and local marketing agreements fulfill a valuable role:

- There are 44 duopolies in the top 100 TV markets.
- There are 25 local marketing agreements in the top 100 TV markets.

- 59.1% of all duopolies support TV stations that capture less than 5% of a local market's revenues.
- 56.0% of all local marketing agreements capture less than 5% of a local market's revenues.

Duopolies and LMAs - Average Revenue Share in Top 100 Markets - 2001

	Revenue Share	Number of Duopolies	Percent Distribution
Duopolies	0% -2.5%	20	45.5%
	2.6% -5.0%	6	13.6%
	5.1% -7.5%	4	9.1%
	7.6% -10.0%	7	15.9%
	10.1% +	7	15.9%
	Total	44	100.0%
	Revenue Share	Number of Duopolies	Percent Distribution
LMAs	0% -2.5%	6	24.0%
	2.6% -5.0%	8	32.0%
	5.1% -7.5%	3	12.0%
	7.6% -10.0%	0	0.0%
	10.1% +	8	32.0%
	Total	25	100.0%

Source: BIA - Investing in Television; Bear, Stearns & Co., Inc.

And as Exhibit 5 suggests:

- 84.1% of the local TV stations that are parties to duopolies and local marketing agreements are associated with emerging networks; UPN, Telefutara, The WB, Univision, Paxson and independents.

Summary of Duopolies and LMA Stations by Network - Top 100 Markets

Network	Number of Affiliates	Percent Distribution	Cumulative Distribution
UPN	21	30.4%	30.4%
Telefutara	16	23.2%	53.6%
WB	10	14.5%	68.1%
Independent	7	10.1%	78.3%
Univision	3	4.3%	82.6%
PAX	1	1.4%	84.1%
Fox	8	11.6%	95.7%
ABC	2	2.9%	98.6%
NBC	1	1.4%	100.0%
CBS	0	0.0%	100.0%
Total	69	100.0%	

Source: BIA - Investing in Television; Bear, Stearns & Co., Inc.

The bottom line is this: Duopolies have traditionally effectively added television voices to the marketplace and helped preserve the economics of fairly weak stations.

In mid to small market TV, we believe that duopolies can serve the same role. Duopolies can preserve the presence of all networks that currently exist in a marketplace and insulate financially weak stations. As we made in the case above, mid to small market TV stations are much less profitable than in big markets. We also found data that suggested that profitability of mid to small market stations varied significantly within given market sizes.

As Exhibit Six lists, we believe that duopolies are such effective structures at launching and maintaining the viability of weaker TV properties because duopolies have beneficial effects on both the revenue and expense side of the local TV station operating ledger.

Television Duopoly Benefits

Revenue Benefits of Television Duopoly

- Leveraging 2 salesforces
- Launch more local news product
- Upgrade "collective" programming of cluster
- Ability to sell regional advertising more effectively and efficiently
- Ability to "time-shift" programming to other dayparts
- Ability to double amount of digital spectrum in a local market

Expense Benefits of Television Duopoly

- Ability to purchase programming "in-market" and locally (leverage over syndicators)
- Combine "back office" functions
- Leverage over rating services
- Leverage over national representation firms
- Ability to roll-out digital services on the "backs" of local stations
- Ability to "amortize" cost of programming over multiple "windows" through time shifting programming
- Develop news programming with minimal incremental investment

Source: Bear, Stearns & Co., Inc. - August 2002 Note on August 5, 1999 Rulemaking - page 14

Why Loosen Duopoly Rules? Part Four: Cable Systems are Viable Local Competitors – How Can an Entire Cable System Not Be Considered to be Competition to Local TV Stations? We believe that the FCC should not overlook the increasing power of the local cable system for a few reasons.

- **Cable Concentration is a Reality for Local TV Players.** As is evident from Exhibit Seven, we believe that local cable consolidation, with a continuing rationalization of cable markets, has become increasingly concentrated. Participants at our TV Summit in November 2002 suggested that the broadcasters' biggest threat was consolidation in the cable business.

Broadcasters are concerned with cable's gatekeeper function, especially in light of many cable operators' dominant local competitive positions. For example, we believe that the merger of Comcast and AT&T's cable systems will leave Comcast with a 98%, 96%, 98% and 97% share of the "wired" cable business in Chicago, Philadelphia, San Francisco and Detroit respectively.

As Exhibit Seven also suggests, the top four players in all of the top ten cable markets control 98%-plus of the "wired" cable subscription base.

We also believe that in 15 of the largest markets, one cable operator "controls" 75%-plus of that local market's "wired" cable business.

It is very hard for a stand-alone TV station to have any operating leverage relative to a cable operator with a significant share of the "wired" business.

Market Share of Basic Subscribers - by Multiple System Operator

	Cable Penetration	Comcast	AOL	Charter	Cox	Adelphia	Cablevision	Total	Comcast TV HH%
New York	75%	14%	24%	1%	-	-	61%	100%	11%
Los Angeles	64%	18%	12%	18%	10%	41%	-	99%	12%
Chicago	65%	98%	-	-	-	-	-	98%	64%
Philadelphia	79%	96%	4%	-	-	-	-	100%	76%
San Francisco	73%	98%	-	1%	-	-	-	99%	72%
Boston	80%	83%	-	8%	-	9%	-	100%	66%
Dallas	50%	73%	-	25%	1%	-	-	99%	37%
Washington DC	70%	63%	-	-	19%	18%	-	100%	44%
Detroit	69%	97%	-	3%	-	-	-	100%	67%
Atlanta	70%	75%	-	23%	-	-	-	98%	53%

Source: Bear, Stearns & Co., Inc. estimates; National Cable Association

- **Cable Company's Often Control Significant Levels of Programming.** Broadcasters are also concerned that multiple system operators (MSOs) are developing competitive local programming, especially in local news, weather, traffic, sports and entertainment/culture channels.

For example, in Exhibit Eight, in the Fairfield, CT cable system, which is operated by Cablevision, CVC has a stake in 14 of the 110 channels on the system's basic and basic-plus tiers. So while Cablevision has an ownership stake in 13% of the system's channels, TV operators such as Meredith Corp., Univision, Paxson and LIN Television own just one TV station/channel. These local broadcasters control 0.9% of the CVC cable system's channels. This makes it very hard for local stations to compete against cable systems.

Cable Channels and Owners on Cablevision's Systems - Fairfield County, CT

Owner	Channels on System	Channel % of System
Viacom (Note 2)	14	12.7%
Cablevision (Note 1)	14	12.7%
AOL Time Warner	11	10.0%
General Electric (Note 1)	11	10.0%
Walt Disney Company (Note 3)	9	8.2%
Fox Broadcasting	6	5.5%
Comcast/Liberty	5	4.5%
USA Networks, Inc.	3	2.7%
E.W. Scripps	2	1.8%
Tribune	2	1.8%
LIN Television	1	0.9%
Landmark Communications	1	0.9%
Paxson Communications	1	0.9%
Shop at Home	1	0.9%
Sony	1	0.9%
Univision	1	0.9%
Meredith Corp.	1	0.9%

Sources: Company reports, Bear, Stearns & Co., Inc.

Note 1: MSG Network, American Movie Classics, Bravo and Independent Film Channel are owned by Rainbow Media which, in turn, is owned by General Electric and Cablevision. GE also owns portion of A&E Network

Note 2: Comedy Central is owned by Viacom and AOL Time Warner

Note 3: Hearst owns 50% of Lifetime, 20% of ESPN, ESPN2 and ESPN Classic Sports and A&E.

- **Cable Companies Aggressively Compete for Local Market TV Ad Dollars.** Broadcasters are concerned with local cable advertising inventory, which has really started to emerge as competition to local TV station ad sales, especially as the cable business becomes more geographically concentrated.

We estimate that local cable systems capture local advertising in an amount equivalent to a fifth- to sixth-ranked (in terms of ratings) local TV station.

A broadcaster that met with the FCC last week suggested to the Commission that cable ad sales now represent 16% of local markets' TV ad dollars. This also is significant. This would suggest that collectively, a local cable system is starting to approximate the size of a station ranked within the top three in a market.

During the last few years, local cable ad growth has accelerated at a pace faster than that of local TV ad sales. For example, we think that Comcast/AT&T capture nearly \$1 billion in local cable ad sales, which exceeds the ad sales captured by the Walt Disney Company's owned and operated (O&O) TV stations. This is a significant development.

How can the FCC not consider local cable systems as a voice in local TV markets? Cable companies typically have stronger competitive positions, deliver competitive program relative to local station players and compete aggressively for ad dollars.

Why Loosen Duopoly Rules? Part Five: Top Three Stations Capture an Average of Only 37% of Audience Share in Markets 51-150. In addition to the economic realities confronting local broadcasters, we believe that there is a lack of evidence for the existence of strong market power in local TV markets.

To illustrate our point, as illustrated in Exhibit Nine, we looked at the "four-book" (February, May, July and November) viewing averages for TV markets 51-150 for the top three rated TV stations in each market.

Top Three Broadcasters' Viewing Share - 4-Book Average										
	26-30%	26-30%	31%-35%	1%-35%	36%-40%	36%-40%	41%-45%	41%-45%	46%-50%	46%-50%
	Viewing	Viewing	Viewing	Viewing	Viewing	Viewing	Viewing	Viewing	Viewing	Viewing
	Share for	Share for	Share for	Share for	Share for	Share for	Share for	Share for	Share for	Share for
	Top 3	Top 3	Top 3	Top 3	Top 3	Top 3	Top 3	Top 3	Top 3	Top 3
	Operators	Operators	Operators	Operators	Operators	Operators	Operators	Operators	Operators	Operators
	Market	Market	Market	Market	Market	Market	Market	Market	Market	Market
Summary	Name	Rank	Name	Rank	Name	Rank	Name	Rank	Name	Rank
	Las Vegas	52	Jacksonville	51	Wikes-Barre	53	Albany	55	Toledo	68
	Honolulu	71	Austin	54	Charleston, WV	61	Little Rock	56	Des Moines	72
	Lincoln, NE	102	Fresno	57	Knoxville	63	Tulsa	60	Omaha	78
	Tyler-Long, TX	109	Dayton	58	Flint	64	Wichita	66	Cedar Rapids	88
	Santa Barbara, CA	119	Richmond	59	Lexington	65	Roanoke	67	Sioux Falls	112
	Mont. Salin, CA	120	Mobile	62	Paducah	75	Green-Bay	69	Erie, PA	143
	Bluid-Bokly-Oak, WV	149	Ft. Myers	70	Spokane	79	Springfield, MO	73		
			Waco-Temple-Bryan, TX	93	Syracuse	80	Tucson	74		
			Savannah, GA	98	Shreveport	81	Portland, ME	76		
			Evansville, IN	99	Huntsville	83	Rochester, NY	77		
			El Paso, TX	101	Chattanooga	85	Champaign, IL	82		
			Springfield-Holyoke, MA	106	Tri-Cities, TN-VA	90	Columbia, SC	84		
			Tallahassee, FL	107	Burl, VT-Platt, NY	91	Madison, WI	86		
			Reno, NV	114	Johnstown-Albion, PA	96	South Bend	87		
			Yakima, WA	127	Hart-Wes-McAll-Browns, TX	97	Jackson, MS	89		
			Bakersfield, CA	130	Ft Smith, AK	108	Dav, IA-Rock Isl., IL	92		
			Chico-Redding, CA	132	Florence-Myrtle Beach, SC	110	Colorado Spr., CO	94		
			Medbrd-Klamath Falls, OR	141	Lansing, MI	111	Baton Rouge, LA	95		
			Albany, GA	148	Eugene, OR	121	Youngstown, OH	100		
					Macon, GA	122	Greenville, NC	103		
					Columbus, GA	126	Ft Wayne, IN	104		
					Corpus Christi, TX	128	Charleston, SC	105		
					Amarillo, TX	129	Traverse City, MI	113		
					Colum-Tup-West Point, MS	131	Augusta, GA	115		
					Monroe, LA-El Dorado, AR	133	Montgomery, AL	116		
					Rockford, IL	135	Peoria	117		
					Topeka, KS	138	Fargo, ND	118		
					Sioux City, IA	140	La Crss-Eau Cl., WI	123		
					Wichita Falls, TX - Lawton, OK	142	Boise, ID	124		
					Wilmington, NC	144	Lafayette, LA	125		
					Terre Haute, IN	146	Waus. Rhine, WI	134		
					Wheeling, WV- Steubenville, OH	150	Dul, MN-Sup, WI	136		
							Beaunt-Pt Arthur, TX	137		
							Colum-Jeff City, MO	139		
							Jop., MO-Pitts., KS	145		
							Lubbock, TX	147		
Summary	7	7%	19	19%	32	32%	36	36%	6	6%

As Exhibit Nine illustrates:

- 7% of markets 51-150 averaged a 25% to 30% viewing share between the top three local TV stations.

- 19% of markets 51-150 averaged a 31% to 35% viewing share between the top three local TV stations.
- 32% of markets 51-150 averaged a 36% to 40% viewing share between the top three local TV stations.
- 36% of markets 51-150 averaged a 41% to 45% viewing share between the top three local TV stations.
- 6% of markets 51-150 averaged a 46% to 50% viewing share between the top three local TV stations.

In all, we surveyed 100 markets [markets 51 to 150], and the top three local TV broadcasters captured an average 37% of viewing share in these markets. This can hardly be construed as having significant market power. In each instance the local cable system captures more total viewing share on its non-broadcast TV channels than the top three broadcasters capture.

Why Loosen Duopoly Rules? Part Six: Must Create an Opportunity for a Level Playing Field. In addition to economic and local market power issues confronting local TV broadcasters in mid to small markets, the FCC should also consider strategic issues that local TV broadcasters could face post June 2, 2003 rulemaking; local TV stations in mid to small-sized markets must be able to respond/react to other aspects and likely realities of the media ownership rulemaking.

- How will a local TV station in a small to mid-sized market, without any ability to enter into a duopoly, compete with a station that is part of a newspaper-broadcast combination?
- How will a local TV station in a small to mid-sized market, without any ability to enter into a duopoly, compete with a station that is part of a cable-multiple system operator combination?
- How will a local TV station in a small to mid-sized market, without any ability to enter into a duopoly, compete with broadcast networks which will now be theoretically be able to reach 45% of all U.S. TV households?
- If a newspaper, a cable system, or a network were likely to buy a local station, would they choose a weak fourth, fifth or six placed local TV station?
- What exit scenario does a weak/money-losing TV station have?

More significant loosening of duopoly rules should protect the viability of the stand-alone TV player that does not ultimately become involved in a cross-ownership opportunity or sell-out to a network. It also allows a weaker station to have a potential competitive response in a very difficult potential operating environment.

Solutions Offered. We believe that there are practical solutions, which if adopted would address some or all of the concerns the industry might have relative to duopoly.

- **The Leading Contender - The National Association of Broadcaster's Duopoly Rule Proposal.** Yesterday, we believe that the National Association of Broadcasters (NAB) adopted a resolution to help ameliorate the concerns of broadcasters on duopoly issues. This proposal, which was adopted by the industry with overwhelming backing (including, we believe the support of a broadcast network player, The Walt Disney Company) would certainly address the vast majority of the industry's issues in our estimation.

We believe that, in a nutshell, the NAB's resolution would:

- Permit a TV broadcaster to own two of the top four TV stations in a local market.
- Allow a broadcaster to own up to a maximum of three TV stations in any local TV market.
- However, the first two elements of the proposal would be governed by an audience share test. A local broadcaster would be restricted from owning any combination of local TV stations that generate an audience share in excess of 30%. [This share test is measured against all TV viewing, including cable and broadcast viewing].

- A local broadcaster would also have to count attributable audience share from owned cable channels in the local market towards the 30% cap. For example, if NBC acquired a TV station that created a duopoly or a triopoly, NBC would have to include the local audience generated at MSNBC, CNBC and its attributable interest in the Rainbow Media assets toward the 30% total audience cap.

Here's why we think this framework works:

- It maintains at least three significant TV players in each market [at least two TV players and the cable system].
- It would be very likely that the Department of Justice would step in if significant local audience/revenue share concentration were created in a given market.
- In smaller markets, significant combinations would likely trip the 30% audience share test.
- It preserves weaker TV voices in the marketplace.
- It allows a stand-alone local TV broadcaster to have some flexibility in pursuing some strategic options in the face of newspaper-broadcast, cable-broadcast, radio-TV and network ownership cap options that will be available to other media players.

With strong industry backing, a consensus opinion that even includes a vote of confidence from The Walt Disney Company, a network player (which does not often occur in the television business), one would have to consider this proposal to be the front-runner and we treat it as such.

- **We Propose That, At A Minimum, The FCC Should Consider a Top-Three Rated Station Prohibition.** At a minimum, we propose that the FCC should consider reducing its "top-four-rated-TV station prohibition" to a "top-three-rated-TV-station prohibition."

Here's why we think this framework works:

- It maintains at least four significant TV players in each market [at least three TV players and the cable system].
- In 80% of markets 51-150 it would allow the combination of a traditional "big three" network with networks which were launched after 1986 (Fox, WB, UPN, Paxson). In 20% of those markets 51-150, a Fox affiliate is among the top three rated stations in a given market. These networks ("big three" versus Fox, UPN, WB, Paxson) tend to have different programming objectives during the day, attract different demographics and produce distinctive news programming. A "big three"/newer TV network combination is a natural combination, in our estimation.
- It preserves weaker TV voices in the marketplace.
- It allows a stand-alone local TV broadcaster to have some flexibility in pursuing some strategic options in the face of newspaper-broadcast, cable-broadcast, radio-TV and network ownership cap options that will be available to other media players.
- In 44 markets, representing 44% of markets 51-150, there would be 1 duopoly permitted.
- In 34 markets, representing 34% of markets 51-150, there would be 2 duopolies permitted.
- In 20 markets, representing 20% of markets 51-150, there would be 3 duopoly opportunities available.
- In 5 markets, representing 5% of markets 51-150, there would be 4 duopoly opportunities.

We will continue to monitor the progress on this issue as June 2, 2003 approaches.

***Bear Stearns acted as a financial advisor to General Motors Corp. (GM) in the pending acquisition of Hughes Electronics Corp. (GMH) by News Corporation LTD. The proposed transaction is subject to the approval of GM and GMH shareholders and the information provided herein is not intended to (i) provide voting advice, (ii) serve as an endorsement of the proposed transaction, or (iii) result in the procurement, withholding or revocation of a proxy or any other action by a security holder.

The Research Analyst(s) who prepared the research report hereby certify that the views expressed in this research report accurately reflect the analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

Victor Miller

This report has been prepared by Bear, Stearns & Co. Inc., Bear, Stearns International Limited or Bear Stearns Asia Limited (together with their affiliates, Bear Stearns), as indicated on the cover page hereof. If you are a recipient of this publication in the United States, orders in any securities referred to herein should be placed with Bear, Stearns & Co. Inc. This report has been approved for publication in the United Kingdom by Bear, Stearns International Limited, which is regulated by the United Kingdom Financial Services Authority. This report is not intended for private customers in the United Kingdom. This report is distributed in Hong Kong by Bear Stearns Asia Limited, which is regulated by the Securities and Futures Commission of Hong Kong. Additional information is available upon request. Bear Stearns and its employees, officers and directors may have positions and deal as principal in transactions involving the securities referred to herein (or options or other instruments related thereto), including positions and transactions contrary to any recommendations contained herein. Bear Stearns and its employees may also have engaged in transactions with issuers identified herein. This publication does not constitute an offer or solicitation of any transaction in any securities referred to herein. Any recommendation contained herein may not be suitable for all investors. Although the information contained herein has been obtained from sources we believe to be reliable, its accuracy and completeness cannot be guaranteed. This publication and any recommendation contained herein speak only as of the date hereof and are subject to change without notice. Bear Stearns and its affiliated companies and employees shall have no obligation to update or amend any information contained herein. This publication is being furnished to you for informational purposes only and on the condition that it will not form a primary basis for any investment decision. Each investor must make its own determination of the appropriateness of an investment in any securities referred to herein based on the legal, tax and accounting considerations applicable to such investor and its own investment strategy. By virtue of this publication, none of Bear Stearns or any of its employees shall be responsible for any investment decision.

(c) 2003. All rights reserved by Bear Stearns. This report may discuss numerous securities, some of which may not be qualified for sale in certain states and may therefore not be offered to investors in such states.

NOTE TO ACCOUNT EXECUTIVES: For securities that are not listed on the NYSE, AMEX or NASDAQ National Market System, check the Compliance page of the Bear Stearns Intranet site for State Blue Sky data prior to soliciting or accepting orders from clients.

DISCLOSURES

Bear, Stearns & Co. Equity Research Rating System:

Ratings for Stocks (vs. analyst coverage universe):

Outperform (O) - Stock is projected to outperform analyst's industry coverage universe over the next 12 months.

Peer Perform (P) - Stock is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.

Underperform (U) - Stock is projected to underperform analyst's industry coverage universe over the next 12 months.

Ratings for Sectors (vs. regional broader market index):

Market Overweight (MO) - Expect the industry to perform better than the primary market index for the region over the next 12 months.

Market Weight (MW) - Expect the industry to perform approximately in line with the primary market index for the region over the next 12 months.

Market Underweight (MU) - Expect the industry to underperform the primary market index for the region over the next 12 months.

Bear, Stearns Ratings Distribution as of April 14, 2003:

Percentage of BSC universe with this rating / Percentage of these companies which were BSC investment banking clients in the last 12 months.

Buy (Outperform): 37 / 24.8

Neutral (Peer Perform): 44.7 / 17.7

Sell (Underperform): 17.3 / 9.6

Not Rated: 1 / 20

FOX, DIS, VIAB, SBGI, GTN, TVL: Within the past twelve months, Bear, Stearns & Co. Inc. or one of its affiliates has performed, or is performing, investment banking services for which it has received a fee from this company.

SBGI: Within the next three months, Bear, Stearns & Co. Inc. or one of its affiliates intends to seek compensation for investment banking services from this company.

DIS, VIAB, SBGI, GTN, TVL: Within the past twelve months, Bear, Stearns & Co. Inc. or one of its affiliates was the manager or co-manager of a public offering of securities for this company.

CCU: A managing director of Bear, Stearns & Co. Inc. is a director of this company.

GBTVK, YBTVA, SBGI: Bear, Stearns & Co. Inc. is a market maker in this company's equity securities.

FOX, VIAB: Bear Stearns is associated with the specialist that makes a market in the options of this issuer, and such specialist may have a position (long or short) and may be on the opposite side of public orders in such options.

UVN, VIAB: Bear, Stearns & Co. Inc. or one of its affiliates owns one percent (1.0%) or more of this company's common equity securities.

HTV: The analyst(s) that prepared this report or a member of the analyst's household has a long position in the equity securities of this company.

The costs and expenses of Equity Research, including the compensation of the analyst(s) that prepared this report, are paid out of the Firm's total revenues, a portion of which is generated through investment banking activities.

For important information regarding the companies in this report, please contact your registered representative at 1-800-371-0978, or write to Uzi Roshia, Equity Research Compliance, Bear Stearns & Co. Inc., 383 Madison Avenue, New York, NY 10179.